

BEAVER ISLAND TRANSPORTATION AUTHORITY  
CHARLEVOIX COUNTY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Beaver Island Transportation Authority</i>	County <i>Charlevoix</i>
Audit Date <i>9/30/04</i>	Opinion Date <i>11/15/04</i>	Date Accountant Report Submitted to State: <i>1/19/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49886</i>
Accountant Signature <i>Barry E. Gaudette, CPA</i>			

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**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

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(231) 946-8930  
Fax (231) 946-1377

### INDEPENDENT AUDITORS' REPORT

Members of the Authority's Board  
Beaver Island Transportation Authority  
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Beaver Island Transportation Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

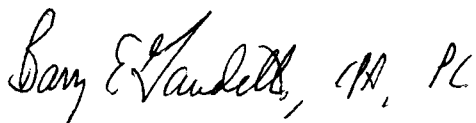
Beaver Island Transportation Authority  
Independent Auditors' Report  
Page Two

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Beaver Island Transportation Authority, Charlevoix County, Michigan, as of September 30, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2004, on our consideration of Beaver Island Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 7, the Beaver Island Transportation Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of September 30, 2004.

The required budgetary comparison information and the Schedule of State financial assistance identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



November 15, 2004

**Basic Financial Statements**

BEAVER ISLAND TRANSPORTATION AUTHORITY  
GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS  
September 30, 2004  
=====

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ <u>22,284</u>
Total current assets	<u>22,284</u>
Noncurrent Assets:	
Capital assets:	
Parking lot	114,814
Buildings and improvements	265,143
Machinery and equipment	132,328
Ferry and improvements	3,894,036
Dock	1,069,284
Vehicles	126,845
Miscellaneous capital outlays	468,078
Less: accumulated depreciation	<u>( 318,085)</u>
Total noncurrent assets	<u>5,752,443</u>
Total Assets	<u>\$ 5,774,727</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable	\$ <u>5,218</u>
Total current liabilities	<u>5,218</u>
Fund balances:	
Invested in capital assets	5,752,443
Unreserved:	
Undesignated	<u>17,066</u>
Total fund balances	<u>5,769,509</u>
Total Liabilities and Net Assets	<u>\$ 5,774,727</u>

See notes to financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
**GOVERNMENT-WIDE**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended September 30, 2004  
=====

Programs	Program Revenues			
	<u>Expenses</u>	<u>Fees, Charges for Services</u>	<u>Operating Grants and Contrib.'s</u>	<u>Capital Grants and Contrib.'s</u>
Public Works	\$ 71,269	\$ 2,933	\$ 43,672	\$
Other:				
Depreciation	<u>318,085</u>	<u>          </u>	<u>          </u>	<u>168,538</u>
Total governmental activities	<u>\$389,354</u>	<u>\$ 2,933</u>	<u>\$ 43,672</u>	<u>\$ 168,538</u>

**General revenues:**

Interest earnings

Total general revenues

CHANGE IN NET ASSETS

Net assets - beginning of year

Net assets - end of year

See notes to financial statements.



Net (Expenses)  
Revenues and  
Changes in  
Net Assets

\$ ( 24,664)

( 149,547)

( 174,211)

102

102

( 174,109)

5,943,618

\$5,769,509

BEAVER ISLAND TRANSPORTATION AUTHORITY  
GOVERNMENTAL FUND  
BALANCE SHEET  
September 30, 2004  
=====

	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 22,284	\$ 22,284
Total Assets	<u>\$ 22,284</u>	<u>\$ 22,284</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$ 5,218	\$ 5,218
Total liabilities	<u>5,218</u>	<u>5,218</u>
Fund balances:		
Unreserved:		
Undesignated	<u>17,066</u>	<u>17,066</u>
Total fund balances	<u>17,066</u>	<u>17,066</u>
Total Liabilities and Fund Balances	<u>\$ 22,284</u>	<u>\$ 22,284</u>

See notes to financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
September 30, 2004  
=====

Amounts reported for governmental activities in the  
statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$	17,066
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Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported as assets in governmental funds:

Cost of capital assets	6,070,528
Accumulated depreciation	<u>( 318,085)</u>

Total Net Assets - Governmental Activities	<u>\$ 5,769,509</u>
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See notes to financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
GOVERNMENTAL FUNDS

For The Year Ended September 30, 2004

	Special Revenue Fund	Total Governmental Funds
REVENUES:		
State grants:		
- capital	\$ 120,499	\$ 120,499
- operating assistance	43,672	43,672
Local sources	48,039	48,039
Interest and dividends	102	102
Reimbursements	<u>2,933</u>	<u>2,933</u>
Total revenues	<u>215,245</u>	<u>215,245</u>
EXPENDITURES:		
Public works:		
Director's salary	28,814	28,814
Legal	16,124	16,124
Liability insurance	7,910	7,910
Health insurance	4,500	4,500
Other	3,180	3,180
Utilities	3,039	3,039
Payroll taxes	2,210	2,210
Equipment maintenance	2,131	2,131
Telephone	1,851	1,851
Audit	1,470	1,470
Newspaper notices	<u>40</u>	<u>40</u>
Total public works	71,269	71,269
Capital outlay	<u>135,089</u>	<u>135,089</u>
Total expenditures	<u>206,358</u>	<u>206,358</u>
NET CHANGES IN FUND BALANCES	8,887	8,887
FUND BALANCES:		
Beginning of year	<u>8,179</u>	<u>8,179</u>
End of year	<u>\$ 17,066</u>	<u>\$ 17,066</u>

See notes to financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2004

Amounts reported for governmental activities in the  
statement of activities are different because:

Total net change in fund balances -  
governmental funds \$ 8,887

Capital outlays to purchase capital assets  
and books are recorded in governmental  
funds as expenditures. However, for  
governmental activities those costs are  
shown in the statement of net assets and  
are depreciated over their estimated  
useful lives as annual depreciation in  
the statement of activities.

This amount by which capital outlays  
exceeded depreciation in the period.

Capital outlays \$ 135,089  
Depreciation expense ( 318,085) ( 182,996)

Change in net assets of governmental activities \$( 174,109)

See notes to financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Beaver Island Transportation Authority (the Authority) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity**

The Authority was created under the Public Transportation Authority Act No. 196 of the P.A. of 1986 as amended, on January 6, 1993. The incorporating political subdivision is St. James Township.

The purpose of the Authority is to plan, promote, purchase, acquire, establish, own, operate, or cause to be operated, maintain, improve, enlarge, and modernize a mass transit system in the greater Beaver Island area.

The Authority Board is comprised of five (5) members appointed by the governing bodies of the political subdivisions participating in the Authority. Representation on the Board is proportional to the population of the respective political subdivisions.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase,

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-Wide and Fund Financial Statements (Continued)**

use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Authority has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

The Authority reports the following major governmental funds:

The *special revenue fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Authority and are recognized as revenue at that time.

**D. Assets, Liabilities and Net Assets**

**1. Cash and investments**

Cash includes amounts in demand deposits.

The Authority reports its investments in accordance with GASBS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration (with a maturity of three, months or less) the rate of return is fixed, such as



BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Assets (Continued)**

**1. Cash and investments (Continued)**

certificates of deposit, and the Authority intends to hold the investment until maturity.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

The Authority Board has designated one bank for the deposit of Authority funds.

**2. Capital Assets**

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded as historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the Authority is depreciated

BEAVER ISLAND TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets (Continued)

using the straight-line method over the following estimated useful lives:

Parking lot	10 years
Building and improvements	40 years
Machinery and equipment	7 years
Ferry	30 years
Ferry improvements	10 years
Dock	15 years
Vehicles	5 years
Miscellaneous capital outlays	10 years

3. Compensated Absences

The Authority does not have a compensated absence policy.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

The Authority does not have any long-term obligations.

5. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spending resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Assets (Continued)**

**6. Use of Estimates**

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Management submits to the Authority Board a proposed budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - GAAP basis - general funds.
2. Public hearings are conducted to obtain taxpayer comments.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004  
=====

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. Budgetary Information (Continued)**

3. Prior to October 1, the budget is legally adopted by the Authority Board as a resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Authority Board.
5. Formal budgetary integration is employed as a management control device during the year for the special revenue fund.
6. The budget as presented, has not been amended.

**B. Excess of Expenditures over Appropriations**

During the year ended September 30, 2004, the Authority has not incurred expenditures in certain budgetary funds which were in excess of amounts appropriated.

**NOTE 3: DEPOSITS, INVESTMENTS AND CREDIT RISK**

Cash and cash equivalents are held separately in the name of the Authority by each of the Authority's funds.

**Deposits**

At year-end, the carrying amount of the Authority's deposits were \$22,284 and the bank balance was \$23,837, of which \$23,837 was covered by federal depository insurance.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2004  
=====

**NOTE 4: DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS**

Capital asset balances and activity for the year ended September 30, 2004 were as follows:

	<u>Beginning Balance</u>	<u>Increases (Decreases)</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>			
Capital assets being depreciated:			
Parking lot	\$ 114,814	\$	\$ 114,814
Building & improvements	265,143		265,143
Machinery & equipment	82,092	50,236	132,328
Ferry	3,776,941		3,776,941
Ferry improvements	48,393	68,702	117,095
Dock	1,069,284		1,069,284
Vehicles	126,668	177	126,845
Miscellaneous capital outlays	<u>452,104</u>	<u>15,974</u>	<u>468,078</u>
Subtotal	<u>5,935,439</u>	<u>135,089</u>	<u>6,070,528</u>
Less accumulated depreciation for:			
Parking lot		11,481	11,481
Buildings & improvements		6,629	6,629
Machinery & equipment		18,904	18,904
Ferry		125,898	125,898
Ferry improvements		11,710	11,710
Dock		71,286	71,286
Vehicles		25,369	25,369
Miscellaneous capital outlays		<u>46,808</u>	<u>46,808</u>
Subtotal		<u>318,085</u>	<u>318,085</u>
Net capital assets being depreciated	<u>5,935,439</u>	<u>( 182,996)</u>	<u>5,752,443</u>
Governmental activities capital assets-net of depreciation	<u>\$ 5,935,439</u>	<u>\$ ( 182,996)</u>	<u>\$ 5,752,443</u>

BEAVER ISLAND TRANSPORTATION AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2004  
=====

**NOTE 5: RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Authority has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Independent Contractor (Beaver Island Boat Company) that operates the ferry vessel shall provide workers' compensation insurance coverage for personnel used in the operation of the ferry vessel and maritime insurance coverage for personnel used by the Independent Contractor in the operation of the ferry vessel.

The Independent Contractor shall be responsible for insuring the vessel provided by the Authority under the terms of this Agreement and shall provide for protection and indemnity insurance coverage, excess liability coverage, and hull and machinery coverage. Said coverage shall be paid for and provided by the Independent Contractor with the Authority named as second insured.

**NOTE 6: PENSION PLAN**

The Authority does not provide a pension plan for its employees.

**NOTE 7: IMPLEMENTATION OF NEW ACCOUNTING STANDARD**

As of and for the year ended September 30, 2004, the Authority implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2004  
=====

**NOTE 8: MANAGEMENT/OPERATING AGREEMENT**

The operation of a ferry between Beaver Island and Charlevoix is necessary for the public welfare, good and convenience of the citizens of Beaver Island. The Authority has the power to provide a system of transportation for its citizens and is authorized to subcontract the management and operation of a ferry service to a third party.

The Beaver Island Transportation Authority (BITA) agreed to a management services agreement with the Beaver Island Boat Company (BIBCo), dated May 29, 2003.

The term of this Agreement shall be thirty (30) years, commencing December 21, 1993.

REQUIRED SUPPLEMENTARY INFORMATION



BEAVER ISLAND TRANSPORTATION AUTHORITY  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND

For the Year Ended September 30, 2004

=====

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
State grants;				
- capital	\$120,499	\$ 120,499	\$120,499	\$
- operating				
assistance	28,896	28,896	43,672	14,776
Local sources	28,896	28,896	48,039	19,143
Interest and				
dividends	50	50	102	52
Reimbursements	<u>12,000</u>	<u>12,000</u>	<u>2,933</u>	<u>( 9,067)</u>
Total revenues	<u>190,341</u>	<u>190,341</u>	<u>215,245</u>	<u>24,904</u>
EXPENDITURES:				
Public works:				
Director's salary	37,440	37,440	28,814	8,626
Legal	15,000	15,000	16,124	( 1,124)
Liability insurance	7,800	7,800	7,910	( 110)
Health insurance	4,500	4,500	4,500	
Other	5,085	5,085	3,180	1,905
Utilities	3,000	3,000	3,039	( 39)
Payroll taxes	2,865	2,865	2,210	655
Equipment maint.	1,890	1,890	2,131	( 241)
Telephone	2,000	2,000	1,851	149
Audit	1,500	1,500	1,470	30
Newspaper notices	<u>450</u>	<u>450</u>	<u>40</u>	<u>410</u>
Total public				
works	81,530	81,520	71,269	10,261
Capital outlay	<u>135,089</u>	<u>135,089</u>	<u>135,089</u>	
Total				
expenditures	<u>216,619</u>	<u>216,619</u>	<u>206,358</u>	<u>10,261</u>
Net change in fund				
balances	(26,278)	( 26,278)	8,887	35,165
Fund balances -				
beginning	<u>( 5,469)</u>	<u>( 5,469)</u>	<u>8,179</u>	<u>13,648</u>
Fund balances -				
ending	<u>\$(31,747)</u>	<u>\$( 31,747)</u>	<u>\$ 17,066</u>	<u>\$ 48,813</u>

BEAVER ISLAND TRANSPORTATION AUTHORITY  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
Year Ended September 30, 2004  
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<u>State Grantor/Pass-Through Grantor Program Title</u>	<u>State Contract Number</u>	<u>Award Revenues</u>
<u>Michigan Department of Transportation</u>		
Capital Grants - Capital Project	2000-0054	\$ 5,790
Capital Grants - Capital Project	2001-0509	46,633
Capital Grants - Capital Project	2001-0867	15,974
Capital Grants - Capital Project	2002-0630	160
Capital Grants - Capital Project	2003-0319	35,945
Capital Grants - Capital Project	2004-0056	15,997
Operating assistance		<u>43,672</u>
		<u>\$164,171</u>

Members of the Authority's Board  
Beaver Island Transportation Authority  
Beaver Island, Michigan

**Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed  
in Accordance With Government Auditing Standards**

We have audited the financial statements of Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2004, and have issued our report thereon dated November 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the Beaver Island Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Beaver Island Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which

Beaver Island Transportation Authority  
Report on Compliance and  
on Internal Control  
Page Two

***Internal Control Over Financial Reporting - Continued***

the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, the Authority Board, and the Michigan Department of Transportation (MDOT) and is not intended to be and should not be used by anyone other than these specified parties.

*Sam E. Tardiff, CPA, PC*

November 15, 2004